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PROVO GAS PRODUCERS LIMITED

1965

ANNUAL REPORT

PROVO GAS PRODUCERS LIMITED · 1965 · ANNUAL REPORT



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DIRECTORS

N. J. ALEXANDER	Winnipeg, Manitoba
D. R. ANNETT	Toronto, Ontario
H. T. ASTLE	Calgary, Alberta
B. H. COREY	Calgary, Alberta
C. S. DUNKLEY	Calgary, Alberta
J. P. GALLAGHER	Calgary, Alberta
W. V. MACINNES	Freeport, Bahamas
W. E. RICHARDS	Calgary, Alberta
D. M. WOLCOTT	Calgary, Alberta

ANNUAL MEETING

The Annual General Meeting of the Members of the Company will be held at the Company's Head Office, Calgary, Alberta, on June 6, 1966 at 3:00 p.m. A formal notice of meeting and proxy form are enclosed with this report.

COMPARATIVE HIGHLIGHTS



FINANCIAL

	1965	1964
Gross Income (after royalties & cost of sales)	\$ 7,196,951	\$ 6,560,524
Cash Flow (after operating, administrative & interest expenses)	3,450,877	3,095,187
Cash Flow per share	41¢	37¢
Net Income (after all charges)	1,723,869	1,483,191
Net Income per share	20¢	18¢
Working Capital (Deficit)	(371,366)	(313,644)
Long Term Debt	22,823,813	18,858,164

OPERATING

	1965	1964
Gas Production from gas fields (billion cubic feet)	19.6	18.8
Oil Production (net barrels)	534,493	474,078
Liquefied Petroleum Gas Production (Canadian gallons)	51,278,468	47,916,257
Proved Gas Reserves (billion cubic feet)	543	526
Proved Oil & Condensate Reserves (net barrels)	9,454,000	8,332,000
Wells Drilled	76	51
Land - Gross Acres	4,574,039	5,110,105
Land - Net Acres	1,120,702	1,225,447

Distribution of Provo's Shareholders and Shares

SHAREHOLDERS			SHARES		
4,905	66.8%	CANADA	79.0%	6,688,263	
2,383	32.4%	U.S.A.	19.9%	1,688,995	
60	.8%	OTHERS	1.1%	94,658	

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HEAD OFFICE

706 - 7 AVENUE S.W., CALGARY, ALBERTA

OFFICERS

J. P. GALLAGHER *President*

D. M. WOLCOTT *Vice-President*

W. E. RICHARDS *Secretary*

H. T. ASTLE *Treasurer*

REGISTRARS AND TRANSFER AGENTS

NATIONAL TRUST COMPANY, LIMITED

Calgary, Toronto, Montreal

AUDITORS

CLARKSON, GORDON & Co.

Calgary, Alberta

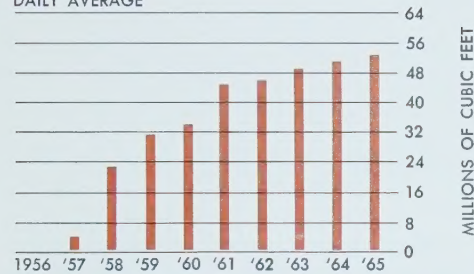
STOCK LISTED

TORONTO STOCK EXCHANGE

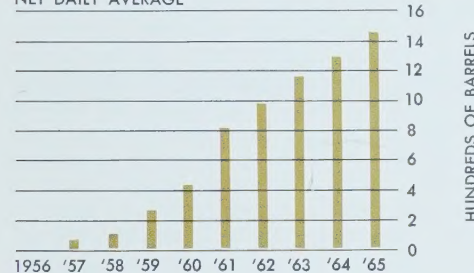
CANADIAN STOCK EXCHANGE

COMPARATIVE HIGHLIGHTS

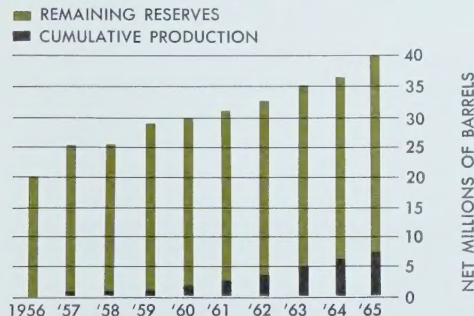
GAS PRODUCTION
DAILY AVERAGE



OIL PRODUCTION
NET DAILY AVERAGE



RESERVES* (OIL & OIL EQUIVALENT OF GAS)



* Net reserves after royalties and partners' interests.
Gas reserves and production converted to barrels using a price equivalent ratio of 20,000 cubic feet per barrel.

FINANCIAL

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Proved Oil & Condensate Reserves (net barrels)	9,454,000	8,332,000
Wells Drilled	76	51
Land - Gross Acres	4,574,039	5,110,105
Land - Net Acres	1,120,702	1,225,447

Distribution of Provo's Shareholders and Shares

SHAREHOLDERS		SHARES	
4,905	66.8%	CANADA	79.0% 6,688,263
2,383	32.4%	U.S.A.	19.9% 1,688,995
60	.8%	OTHERS	1.1% 94,658

REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS

New levels of income and production were achieved during 1965. Operations included the largest exploratory drilling program in the Company's history which resulted in the drilling of 5 important discovery wells during the period under review.

Highlights of the year's operations are as follows:

- Gross income increased 9% to \$7,196,951, cash flow increased 11% to \$3,450,877 and net income increased 16% to \$1,723,869.
- Oil production increased 13% to 534,493 barrels, gas production increased 4% to 19.6 billion cubic feet and liquefied petroleum gas produc-

tion increased 7% to 51,278,468 Canadian gallons.

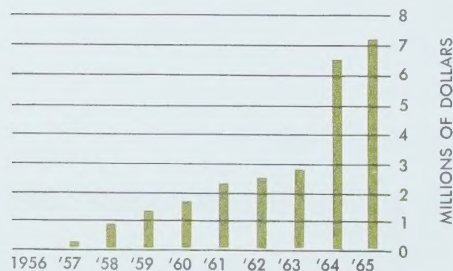
- Proved oil reserves increased 13% to 9,454,000 net barrels and proved gas reserves increased 3% to 543 billion cubic feet. Neither figure includes reserves from recent discoveries.
- Of the 76 gross wells drilled, 42 were completed as oil wells and 11 as gas wells.
- A 45-mile products pipeline was constructed to the Company's underground storage facilities at Melville, Saskatchewan.
- The gathering system serving the Steelman plant was extended to 9 new fields.

These activities are reviewed in detail in this tenth annual report.

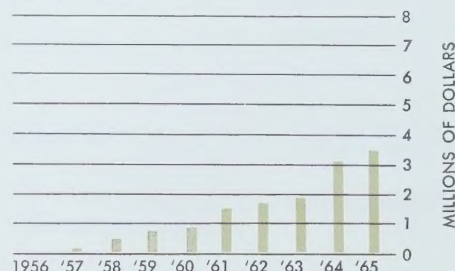
FINANCIAL

Effective January 1, 1965, the full-cost method of accounting was adopted. Under this method, all direct costs incurred in the acquisition, exploration and development of oil and gas reserves, including non-productive wells, are capitalized. These capitalized costs are amortized on a unit-of-production basis over the aggregate productive life of all the producing properties. This change will tend to stabilize the annual exploration charges and more realistically reflect the cost of proved oil and gas reserves. Full-cost accounting is being adopted by the larger Canadian independent oil and gas companies. The comparative statements for 1965 and 1964 given in this report are calculated on a full-cost basis to assist in comparison.

GROSS INCOME
AFTER ROYALTIES

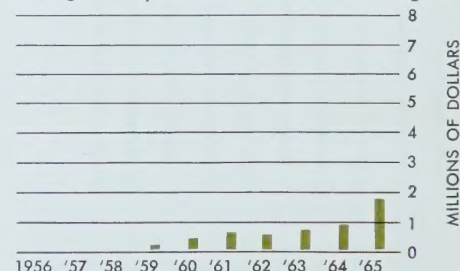


CASH FLOW
AFTER OPERATING COSTS, INTEREST
AND RENTALS



NET INCOME
AFTER ALL CHARGES

1965 figures are presented on a full-cost accounting basis



SOURCE OF 1965 INCOME

Natural Gas Sales		Propane, Butane & Condensate Sales	
▼		▼	
30.7%		18.3%	48.2%
▲		▲	
Crude Oil Sales		2.8% Other Income	

DISTRIBUTION OF 1965 INCOME

Oil & Gas Operating Expenses		Interest		Net Income
▼		▼		▼
11.6%		23.5%	17.0%	24.0%
▲		▲		23.9%
Plant & Marketing Expenses		Depreciation & Amortization		

Gross income (after all royalties and cost of sales) increased to \$7,196,951 from \$6,560,524 in 1964. Cash flow (after operating, administrative and interest expenses) increased to \$3,450,877 or 41¢ per share from \$3,095,187 or 37¢ per share last year. Net income (after all expenses, including depreciation, depletion and amortization) increased to \$1,723,869 or 20¢ per share in 1965 from \$1,483,191 or 18¢ per share in 1964.

The 1965 net income, on the same accounting basis used in prior years, would have been \$981,426 compared with the \$916,262 previously reported for 1964.

Gross income for the first quarter of 1966 increased 11% to \$1,948,000 compared with \$1,752,000 for this period in 1965. Cash flow in the first quarter was \$918,000 or 11¢ per share compared with \$818,000 or 9¢ per share for the same period last year.

PRODUCTION

Net oil and condensate production (after all royalties) increased to 534,493 barrels (1,464 barrels per day) from 474,078 barrels (1,295 barrels per day) last year. Gas production increased to 19.6 billion cubic feet (53.8 million cubic feet per day) from 18.8 billion cubic feet (51.5 million cubic feet per day) last year. Liquefied petroleum gas production increased to 51,278,468 Canadian gallons (4,013 barrels per day) compared with 47,916,257 Canadian gallons (3,740 barrels per day) last year. A breakdown of the production of plant products is as follows:

	1965	1964
Propane (bbls.)	932,457	874,955
Normal Butane (bbls.)	293,771	251,988
Iso-Butane (bbls.)	68,950	71,300
Natural Gasoline (bbls.)	169,922	170,793
Residue Gas (billion cubic feet)	6.4	7.5

Report of the Directors



LAND HOLDINGS as at December 31, 1965

	<i>Gross Acres</i>	<i>Net Acres</i>
Alberta	1,321,802	483,857
British Columbia	451,376	89,746
Manitoba	22,961	9,412
Northwest Territories	2,642,853	499,206
Saskatchewan	54,178	16,242
Kansas	2,550	794
Montana	27,686	5,175
North Dakota	50,633	16,270
1965 Total	4,574,039	1,120,702
1964 Total	5,110,105	1,225,447



Producing operations on Provo-interest properties in the Swan Hills and Pembina oil fields where Provo participated in drilling 19 wells during 1965. One of the 1965 Swan Hills oil producers is shown at the left. A high pressure wellhead and the main battery site in the 30-well Pembina Cardium Unit #7 (Provo 38% interest) are below.



These results do not include any significant production from the new fields tied in to the Steelman plant during 1965 as these extensions were not fully operative until December.

Interests were held in producing properties equal to 76 net oil wells and 72 net gas wells at December 31, 1965.

LAND HOLDINGS

Permit and lease holdings at year-end totalled 4,574,039 gross acres or 1,120,702 net acres compared with 1,225,447 net acres at the end of 1964. The distribution of this acreage is shown in the accompanying schedule. Areas of major land interest are shown on the fold-out map and the detail area maps at the end of the report.

RESERVES

At December 31, 1965, net proved recoverable oil and condensate reserves were calculated to be 9,454,000 barrels compared with 8,332,000 barrels in 1964.

Proved recoverable natural gas reserves at December 31, 1965, were estimated at 543 billion cubic feet compared with 526 billion cubic feet in 1964.

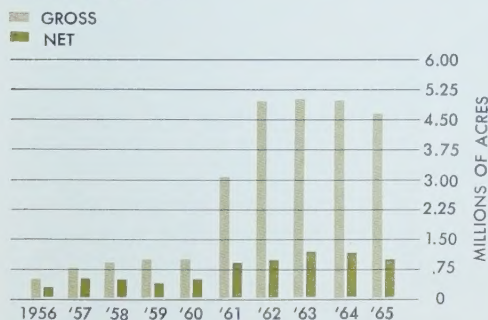
The reserve estimates were prepared by the independent consulting firm of James A. Lewis Engineering Co. Ltd.

These figures exclude all probable reserves, the heavy gravity oil reserves at Hughenden and the gas reserves being processed by the Steelman and Edmonton plants. In addition, reserves developed as a result of the drilling of several significant discovery wells late in 1965 have not been included.

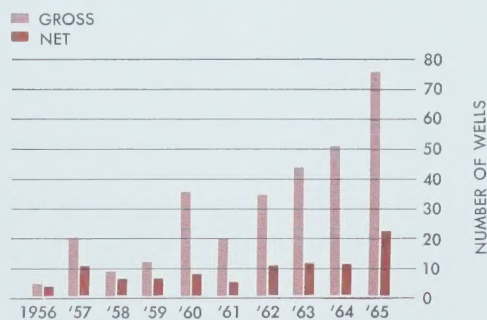
EXPLORATION AND DEVELOPMENT

The largest drilling program in the Company's history took place in 1965. This program included participation in the drilling of 76 wells (22.0 net) which resulted in 42 oil wells (7.3 net), 11 gas wells (7.9 net) and 23 dry holes (6.8 net). Of these wells, 13 were drilled under farmout at no cost to the Company. The 7.3 net oil wells do not include 8 oil wells in which an overriding royalty interest was retained.

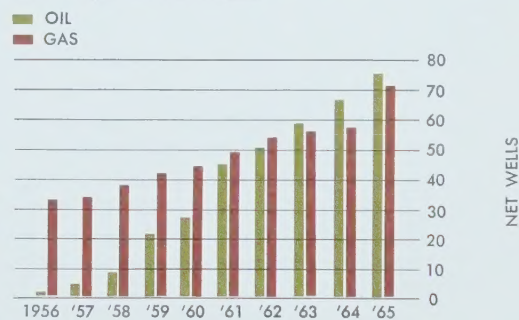
LAND HOLDINGS



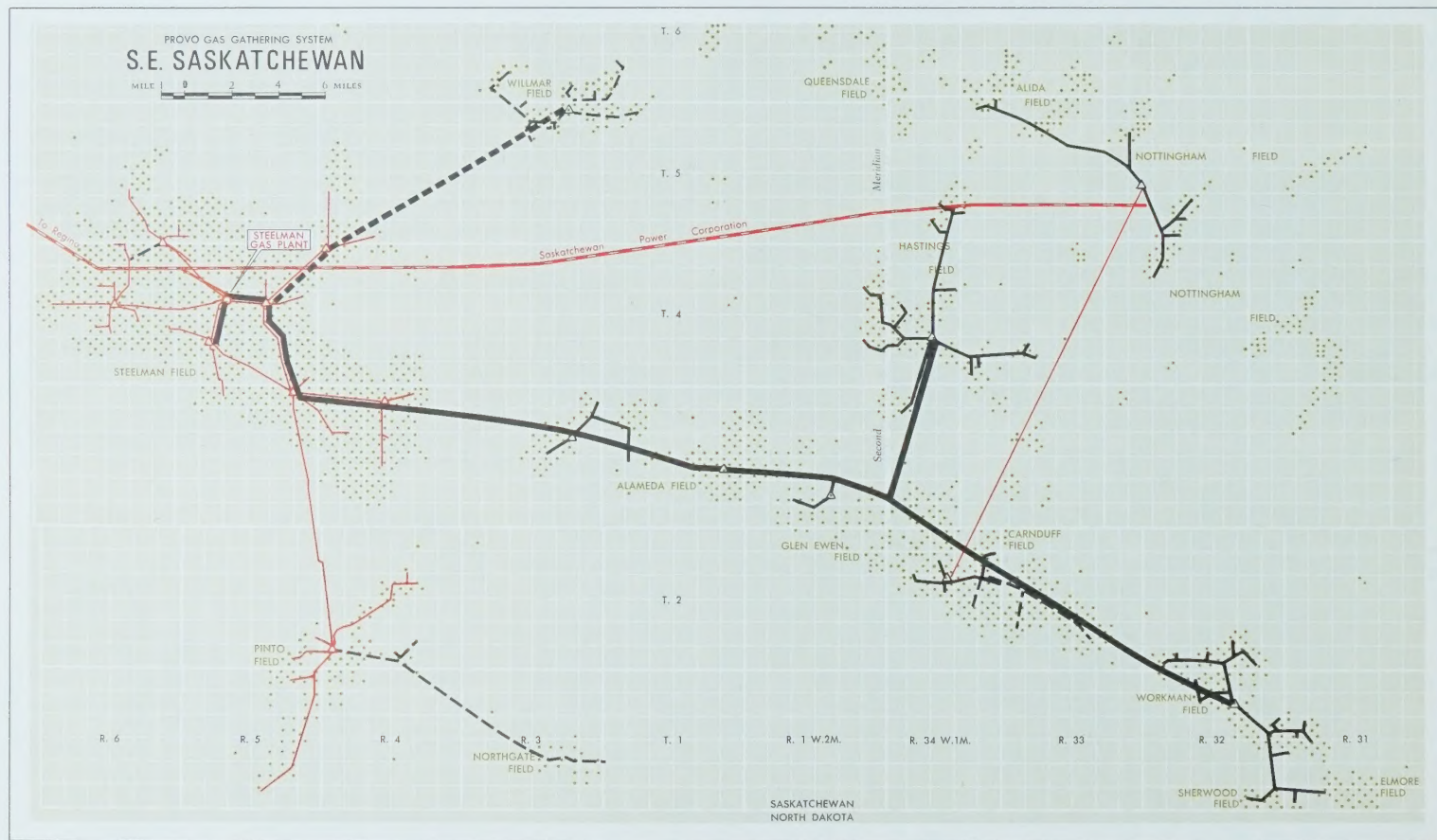
WELLS DRILLED



NET PRODUCING WELLS



Report of the Directors



During the first quarter of 1966, the Company participated in drilling 48 gross wells resulting in 13 oil wells and 13 gas wells. These include an important dual-zone gas discovery well in the Bistcho Lake area of north-western Alberta (Detail Map #3) and an oil discovery in the Bulrush area of northeastern British Columbia.

ALBERTA

Fifty-seven wells were drilled on Company-interest acreage in Alberta, of which 31 were oil wells and 11 were gas wells. These included important gas discoveries in North Provost and Brownfield and a dual-zone oil discovery at South Loon Lake.

In the Swan Hills area, 14 oil wells were drilled, 11 of which were located on farmin acreage in the North Swan Hills field (Detail Map #4). Additional lands were acquired in this area at a Crown Sale in 1966.

Six oil wells were drilled at Willesden Green (Detail Map #5), 4 at Pembina, 4 at Lochend, one at Red Earth and one at Kilda. Five new gas wells were drilled in the Provost Unit.

Late in 1965, a Viking gas discovery well was drilled in the North Provost area (Detail Map #1). This was followed by an exploratory step-out drilling program which included the drilling of 5 successful step-out wells in this area timed for 3 Crown reserve sales. Land holdings in this area now total 44,474 wholly-owned acres.

In the Brownfield area (Detail Map #1), 20 miles northwest of the Provost Unit, a second Viking gas discovery well was drilled during 1965. This was followed up in early 1966 by the drilling of 4 successful step-out wells timed for 2 Crown lease sales. Recent acquisitions have increased holdings in this area to 38,553 net acres.

The 1965 oil discovery well at South Loon Lake (Detail Map #2) was followed by a successful development well. Early in 1966, 4 successful oil wells were drilled in this area, 2 of which are dual-zone producers. These wells were timed for Crown sales and enabled the Company to acquire 2,240 gross acres of offsetting Crown lands.

Because of production and marketing problems, the substantial reserves of heavy gravity oil at Hughenden (Detail Map #1) have never been included in the estimates of proved oil reserves. During 1965, a farmout of these lands was made to a company which requires this type of oil. Under the terms of this agreement, the farmee will carry out a steam pilot injection recovery program commencing in 1966 and requiring an expenditure of from \$250,000 to \$500,000 to earn a 10% to 20% interest in these lands with the right to purchase additional interests up to 50%.

BRITISH COLUMBIA

The Company participated in drilling 2 successful step-out oil wells in the Weasel area during 1965 and in an oil discovery at Bulrush in 1966.

SASKATCHEWAN and MANITOBA

Nine wells were drilled in Saskatchewan and Manitoba in 1965, resulting in the completion of a successful oil producer in each of the Pinto, Benson, Huntoon and Steelman areas of Saskatchewan and the Pierson area of Manitoba.

MONTANA and NORTH DAKOTA

Two additional oil producers were drilled in the Fred & George Creek field in Montana (Detail Map #6). These wells were drilled at no cost to the Company without any reduction in the interest held. Two successful development wells were completed at Miner's Coulee (Detail Map #6) offsetting a recent oil discovery.

Two successful oil wells were drilled in the Flat Lake area on the boundary of Montana and North Dakota.

KANSAS

Five properties were acquired in the shallow oil fields of southeastern Kansas, essentially for their secondary recovery potential. Three types of pilot secondary recovery programs have been instituted on 3 of these properties. Results should be obtained within the next 12 months.

Report of the Directors

PROCESSING

The Company operates 3 major gas processing plants in Western Canada. These are the Provost plant (77% interest) located in the Provost Gas Unit in east central Alberta, the Edmonton Liquid Gas Limited plant (100% interest) located south of Edmonton, Alberta, and the Steelman Gas Limited plant (100% interest) located in southeastern Saskatchewan.

The Steelman gathering system (Detail Map - page 6) was extended to tie in solution gas produced from 9 additional oil fields to the southeast of the plant. This included solution gas produced from the Nottingham and Carnduff fields which previously had been processed by a plant at Nottingham, Saskatchewan. The Company plans to extend this gathering system during the current year to include 3 additional areas in southeastern Saskatchewan.

Early in 1966 a sulphur plant having a 13-ton per day capacity commenced operation at Steelman.

STORAGE

The underground propane and butane storage facilities at Melville, Saskatchewan, stored record volumes of product during 1965. A fourth storage well was drilled and the capacity of these facilities has been increased to approximately 30 million Canadian gallons. A fifth storage well and a further increase in capacity is planned for 1966. With the enhanced value of liquefied petroleum gases, the demand for storage facilities is rapidly increasing.

MARKETING

The Company began the retail marketing of propane gas in northern Manitoba in 1961 and now has marketing operations in Flin Flon, Thompson, The Pas, Snow Lake, Churchill and Cranberry Portage. The development of new mines and the recently announced decision to construct a pulp and paper mill at The Pas, Manitoba, offer great potential for expanding markets in

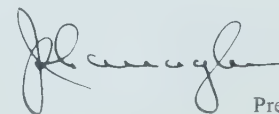
this area and could lead to the establishment by the Company of a natural gas distribution system to the principal centres of northern Manitoba. The Company's propane gas distribution systems were designed so that they are readily convertible to natural gas distribution.

During the year, a long-term contract was entered into for the purchase of substantial volumes of propane from Pacific Petroleum Ltd. This additional supply, augmenting existing propane production, places the Company in a strong position in the propane marketing field. A 45-mile products pipeline was constructed to move the propane purchased from Pacific's pipeline at Grenfell, Saskatchewan, to the underground storage facilities at Melville. Bulk storage plants have been located at Kamsack, Hudson Bay Junction and Swan River. The Company's plan is to increase its wholesale and brokerage operations rather than to expand its direct retail marketing operations into new areas.

During the current year the Company will pursue an aggressive exploratory program while proceeding with the development of its recent oil and gas discoveries. Substantial capital expenditures will also be directed to the installation and completion of 6 water-flood projects which should add to the producibility of present properties.

Your directors again wish to express their appreciation for the continued interest and support of the shareholders and the initiative and loyalty of all those associated with the Company's operations.

On behalf of the Board,



President.

April 30, 1966.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 1965 AND 1964

	1965	1964
INCOME:		
Natural gas sales less royalties	\$2,207,744	\$2,046,428
Crude oil sales less royalties	1,312,965	1,155,757
Propane and other product sales less cost of sales	3,471,287	3,120,825
Other income	<u>204,955</u>	<u>237,514</u>
	<u>7,196,951</u>	<u>6,560,524</u>
DEDUCT:		
Operating, general and administrative expenses	2,524,615	2,360,222
Interest	<u>1,221,459</u>	<u>1,105,115</u>
	<u>3,746,074</u>	<u>3,465,337</u>
Cash income from operations	<u>3,450,877</u>	<u>3,095,187</u>
DEDUCT:		
Depreciation and depletion	1,671,164	1,561,689
Amortization of financing expenses	<u>55,844</u>	<u>50,307</u>
	<u>1,727,008</u>	<u>1,611,996</u>
Net income for the year (Notes 1 and 4)	<u>\$1,723,869</u>	<u>\$1,483,191</u>

See accompanying notes.

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1965
AND 1964

ASSETS	1965	1964
CURRENT:		
Cash	\$ 268,665	\$ 255,376
Accounts receivable - trade	1,837,908	1,405,467
- affiliated company	—	63,243
Inventories valued at the lower of cost or market	722,584	966,900
Prepaid expenses	126,576	88,267
	<u>2,955,733</u>	<u>2,779,253</u>
AMORTIZATION FUND FOR RETIREMENT OF FIRST MORTGAGE BONDS:		
Cash and marketable securities at cost (which approximates market value) plus accrued interest	2,977,894	2,360,255
Amortization fund instalment due February 15, 1966 - per contra	<u>460,000</u>	<u>500,000</u>
	<u>3,437,894</u>	<u>2,860,255</u>
PROPERTY, PLANT AND EQUIPMENT - At Cost (Note 1):		
Oil and gas properties less accumulated depletion of \$2,554,684 (1964 - \$1,917,073)	13,905,475	12,227,599
Gas plants and gathering systems less accumulated depreciation of \$6,182,903 (1964 - \$5,190,003)	15,088,215	12,141,451
Propane marketing equipment less accumulated depreciation of \$167,190 (1964 - \$86,559)	3,046,032	2,648,042
Production and other equipment less accumulated depreciation of \$484,528 (1964 - \$489,637)	1,664,983	1,383,436
	<u>33,704,705</u>	<u>28,400,528</u>
OTHER:		
Financing, market development and pre-production expenses less amounts written off	643,024	616,970
Investments and deposits	282,660	265,484
Preliminary expenditures re proposed pipeline	—	167,726
	<u>925,684</u>	<u>1,050,180</u>
	<u>\$41,024,016</u>	<u>\$35,090,216</u>

See accompanying notes.

LIABILITIES

	1965	1964
CURRENT:		
Bank loan	\$ 500,000	\$ —
Accounts payable and accrued charges	1,293,155	1,449,591
Due to affiliated companies	329,333	207,917
Accrued interest on long term debt	247,314	191,217
Amortization fund instalment due February 15, 1966 - per contra	460,000	500,000
Current instalments on long term debt	497,297	744,172
	<u>3,327,099</u>	<u>3,092,897</u>
LONG TERM DEBT (Note 2)	22,823,813	18,858,164
MINORITY INTEREST IN SUBSIDIARY	—	60,902
SHAREHOLDERS' EQUITY (Note 3):		
Capital		
Authorized—10,000,000 shares of no par value		
Issued — 8,471,916 shares (1964 - 8,441,359 shares)	12,250,563	12,179,581
Earned surplus per statement	2,622,541	898,672
	<u>14,873,104</u>	<u>13,078,253</u>
COMMITMENTS (Note 5)		
On behalf of the Board:		
J. P. GALLAGHER, Director.		
D. M. WOLCOTT, Director.		
	<u>\$41,024,016</u>	<u>\$35,090,216</u>

AUDITORS' REPORT

To the Shareholders of Provo Gas Producers Limited.

We have examined the consolidated balance sheet of Provo Gas Producers Limited and its wholly owned subsidiaries at December 31, 1965 and the consolidated statements of income, earned surplus and source and application of funds for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of income, earned surplus and source and application of funds are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Provo Gas Producers Limited and its wholly owned subsidiaries at December 31, 1965 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change in accounting practice explained in Note 1, which change we approve.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Calgary, Alberta.
March 14, 1966.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1965

SOURCE OF FUNDS:

Cash income from operations	\$3,450,877
Proceeds from sales of properties	324,433
Proceeds from sale of capital stock	10,080
Long term debt—	
Proceeds from issue of 5¾ % First Mortgage Serial Bonds Series B	\$3,333,109
Proceeds from secured bank loan	1,100,000
	4,433,109
Less reduction of bonds, debentures and bank loans	467,460
	<u>3,965,649</u>
	<u>7,751,039</u>

APPLICATION OF FUNDS:

Expenditures for property, plant and equipment	7,132,048
Increase in amortization fund for retirement of First Mortgage Bonds of Steelman Gas Limited	577,639
Increase in investments, deposits, market development costs, etc.	99,074
	<u>7,808,761</u>
Decrease in working capital	<u>\$ 57,722</u>

CONSOLIDATED STATEMENT OF EARNED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1965

Balance at beginning of year	\$ 898,672
Add net income for the year	<u>1,723,869</u>
Balance at end of year	<u>\$2,622,541</u>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1965

1. CHANGE IN ACCOUNTING PRACTICE

Prior to 1965 the companies followed the practice of expensing exploration charges, non-productive development expenses, carrying charges on non-producing properties and the cost of leasehold and reservations surrendered. Depletion of producing oil lands and well development expenditures and depreciation of production equipment was provided on a unit of production method based on estimated proven reserves of oil and gas.

Commencing January 1, 1965 the companies adopted the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated proven reserves of oil and gas. Depreciation of plant and equipment is provided on the unit of production basis.

Although the change in accounting practice was not made retroactively, the statement of income for 1964 has been included for comparative purposes on the same basis as the 1965 accounts. The net income previously reported for 1964 amounted to \$916,262. Had the companies not changed their accounting practice, the consolidated net profit for 1965 would have amounted to \$981,426.

2. LONG TERM DEBT

Details of the companies' long term debt are as follows:

	1965	1964
Provo Gas Producers Limited		
Bank loan (secured) - due \$400,000 annually	\$ 1,633,337	\$ 900,000
5½% First Mortgage Serial Bonds, due November 15, 1984 (redeemable in varying annual amounts commencing in 1967):		
Series A (U.S. \$9,000,000)	9,721,313	9,721,313
Series B (U.S. \$3,100,000)	3,333,109	—
Steelman Gas Limited		
6% First Mortgage Bonds due February 15, 1970 subject to amortization fund:		
Series A (U.S. \$4,000,000)	4,324,000	4,324,000
Series B	1,455,000	1,455,000
6% Debentures Series A due May 15, 1973 subject to sinking fund (no payment required in 1966)	2,000,000	2,000,000
Bank loan	—	246,875
Western Naco Petroleums Limited		
5½% Secured Convertible Debentures due July 1, 1970 subject to sinking fund (no payment required in 1966)	303,000	306,500

Provo Inc.

Bank loan (U.S. \$510,000) payable U.S. \$22,500 quarterly to December 31, 1968 and U.S. \$30,000 quarterly thereafter (secured by producing properties)

551,351	648,648
23,321,110	19,602,336
497,297	744,172
<u>\$22,823,813</u>	<u>\$18,858,164</u>

Less instalments due within one year included in current liabilities

3. CAPITAL

During 1965, 24,257 shares were issued at a recorded value of \$60,643 in exchange for 24,257 shares (representing the balance of the minority interest) of Steelman Gas Limited and 6,300 shares on the exercise of stock options for \$10,080 cash.

662,700 shares of the Company's capital stock were reserved at December 31, 1965 as follows:

519,000 shares for options granted to Dome Petroleum Limited at \$2.20 per share of which 219,000 shares are exercisable until August 1, 1966 and 300,000 shares are exercisable until February 1, 1968 providing the management contract remains in force.

143,700 shares for the granting of options to officers and employees at \$1.60 per share exercisable on various dates to April 1, 1968.

4. INCOME TAXES

Under Canadian income tax law, exploration and development expenditures including property acquisition costs may be deducted from income or, if such expenditures exceed the income for the year, the excess may be carried forward to subsequent years. No provision for income taxes was required for the year ended December 31, 1965 and at that date an excess of such expenditures amounting to approximately \$4,600,000 and capital cost allowances of approximately \$17,400,000 were available to be applied against future taxable income.

5. COMMITMENTS

Steelman Gas Limited has leased, with an option to purchase, certain compressor equipment requiring varying quarterly rental payments aggregating \$604,560 to November 1, 1969.

TEN YEAR FINANCIAL REVIEW

	1965*	1964	1963	1962	1961	1960	1959	1958	1957	1956
Gross Income (after royalties and cost of sales)	\$7,196,951	\$6,560,524	\$2,821,432	\$2,558,625	\$2,259,208	\$1,648,420	\$1,292,086	\$ 838,694	\$ 188,118	\$ —
Operating & Administrative Expenses	2,524,615	2,360,222	721,194	617,909	585,594	519,718	456,732	382,416	167,035	56,373
Interest	1,221,459	1,105,115	232,284	246,793	259,689	264,110	170,753	108,279	11,640	8,920
Cash Flow	3,450,877	3,095,187	1,867,954	1,693,923	1,413,925	864,592	664,601	347,999	9,443	(65,293)
Cash Flow per Share	41¢	37¢	24¢	22¢	18¢	11¢	9¢	5¢	—	(1¢)
Depreciation, Depletion & Amortization	1,727,008	1,635,370	632,270	611,347	564,958	328,368	265,111	164,132	56,529	—
Net Income (after all charges)	1,723,869	916,262	753,463	495,259	591,513	281,893	151,241	(34,386)	(313,212)	(279,846)
Net Income per Share	20¢	11¢	10¢	6¢	8¢	4¢	2¢	—	(5¢)	(4¢)
Shares Outstanding	8,471,916	8,441,359	7,815,566	7,815,566	7,815,566	7,634,235	7,603,235	6,488,238	6,488,238	6,488,238
Working Capital (Deficit)	(371,366)	(313,644)	(365,595)	(75,163)	1,323,690	1,451,960	1,693,674	(2,320,191)	(965,297)	803,056
Long Term Debt	22,823,813	18,858,164	4,918,500	3,626,500	3,941,500	3,900,000	4,200,000	—	—	—
Land Rentals	207,793	205,341	200,544	188,335	148,309	113,397	118,439	64,155	114,479	101,500
Exploration Costs (including dry holes & lease abandonments)	522,394	338,214	281,677	398,982	109,145	140,934	129,810	154,098	151,647	113,053
Oil & Gas Development Expenditures	1,479,886	837,751	1,068,790	778,168	495,363	509,609	385,669	157,393	692,449	160,586
Gas Plant & Gathering System Exp.	3,711,109	1,129,794	416,850	564,442	232,503	22,231	495,036	405,982	1,516,666	—
Marketing Facility Exp.	427,208	645,315	—	—	—	—	—	—	—	—
Land Acquisition Exp.	459,225	1,701,184	391,594	541,264	138,735	56,935	6,167	47,951	176,617	6,046,918

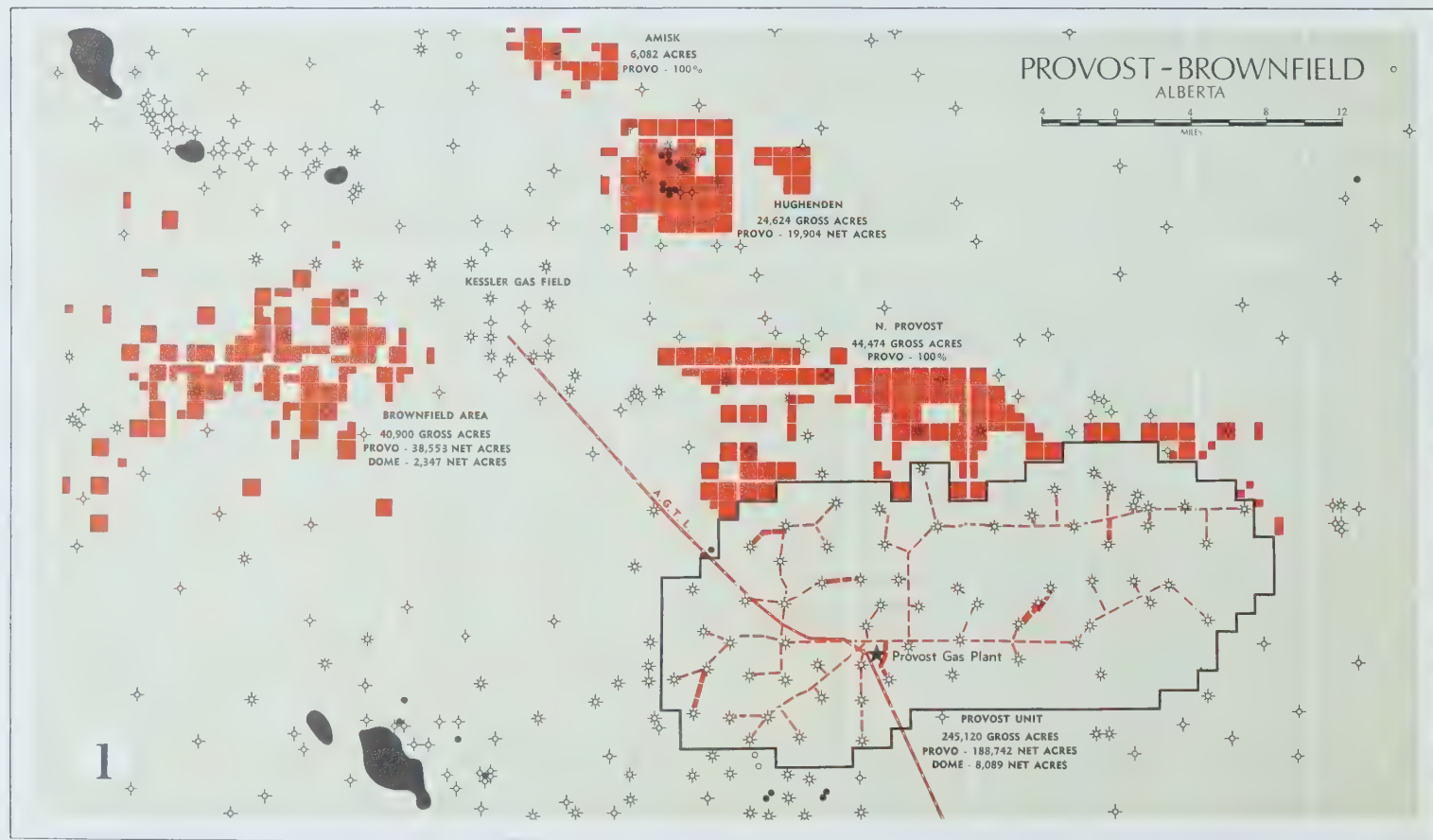
*1965 figures are presented on a full-cost accounting basis.

TEN YEAR OPERATING REVIEW











	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956
Gas Production from gas fields (million cubic feet)	19,643	18,866	17,754	16,870	16,330	12,410	11,600	8,400	1,380	—
Average Daily Gas Production (million cubic feet)	53.8	51.5	48.6	46.2	44.7	33.9	31.8	23.0	3.8	—
Residue Gas Production from oil fields (million cubic feet)	6,400	7,554	—	—	—	—	—	—	—	—
Average Daily Residue Gas Pro- duction (million cubic feet)	17.7	20.6	—	—	—	—	—	—	—	—
Oil Production (net barrels)	534,493	474,078	425,080	362,184	294,813	162,496	92,714	38,618	21,705	—
Average Daily Oil Production (net barrels)	1,464	1,295	1,165	992	808	444	254	106	59	—
Liquefied Petroleum Gas Pro- duction (Cdn. gallons)	51,278,468	47,916,257	—	—	—	—	—	—	—	—
Average Daily L.P.G. Pro- duction (Cdn. gallons)	140,489	130,918	—	—	—	—	—	—	—	—
Estimated Proved Natural Gas Reserves (billion cubic feet)	543	526*	547	564	575	586	596	567	575	484
Est. Proved Oil & Condensate Reserves (net barrels)	9,454,000	8,332,000	6,985,000	5,854,000	4,600,000	3,355,000	2,700,000	1,206,000	1,000,000	—
Wells Drilled - Gross	76	51	43	34	20	36	11	8	20	3
Working Interest - Gross	67	47	40	30	11	29	11	8	20	3
Working Interest - Net	22.0	10.6	11.2	10.3	3.6	7.0	5.1	4.9	10.4	2.0
Royalty Interest	9	4	3	4	9	7	—	—	—	—
Exploratory - Gross	35	18	8	14	5	10	8	4	9	3
Development - Gross	41	33	35	20	15	26	3	4	11	—
Net Gas Wells	72	58	57	54	49	44	42	38	33	32
Net Oil Wells	76	67	59	51	46	27	21	9	5	1
Acreage - Gross	4,574,039	5,110,105	5,127,520	4,991,393	3,043,980	1,228,284	1,209,675	984,867	773,396	394,975
Acreage - Net	1,120,702	1,225,447	1,232,287	1,159,497	988,273	464,775	439,665	492,294	468,892	323,216

*Reflects sale of proved gas properties for producing oil reserves.













DETAIL MAPS

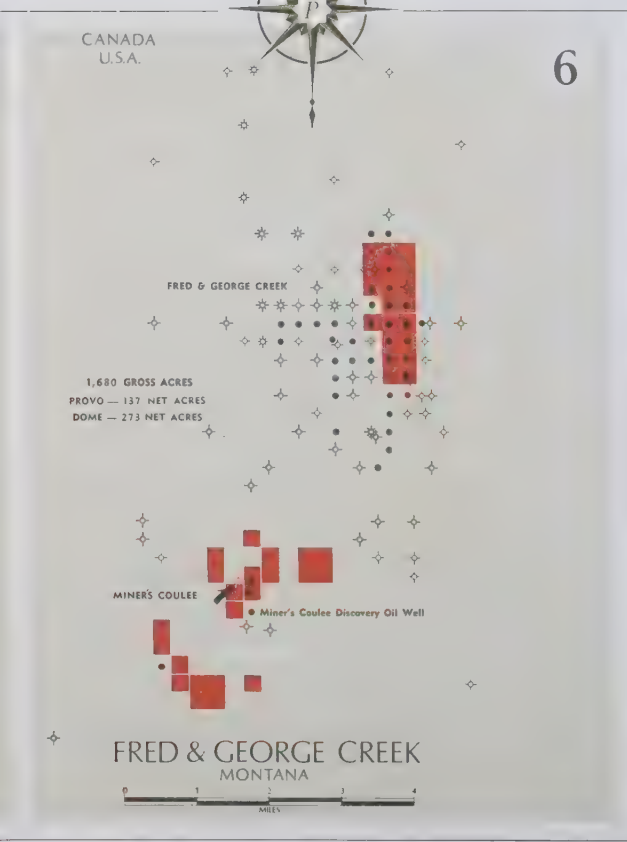
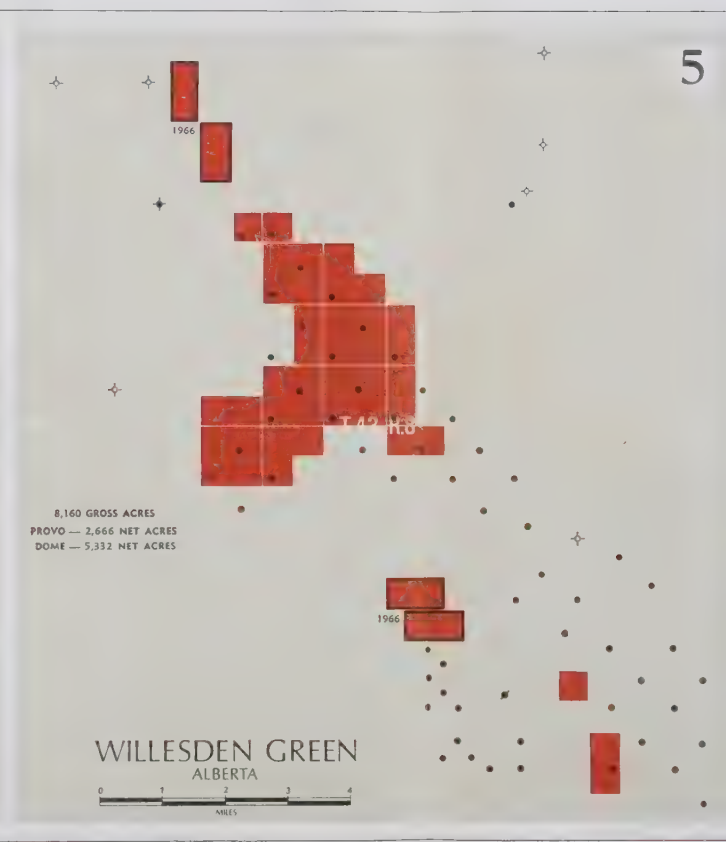


DETAIL MAPS

PROVO LAND HOLDINGS _____ 
 LOCATION _____ 
 DRILLING WELL _____ 
 OIL WELL _____ 
 GAS WELL _____ 
 SERVICE WELL _____ 
 DRY AND ABANDONED WELL _____ 
 OIL PIPELINE _____ 
 GAS PIPELINE _____ 
 1965 GAS PIPELINE ADDITIONS _____ 

WESTERN CANADA & N.W. UNITED STATES

AREAS OF LEASE INTEREST _____ 
 PROVO P.&N.G. PERMIT _____ 
 OIL FIELD _____ 
 GAS FIELD _____ 
 OIL PIPELINE _____ 
 OIL PIPELINE (PROPOSED) _____ 
 GAS PIPELINE _____ 
 GAS PIPELINE (PROPOSED) _____ 
 GAS PROCESSING PLANT _____ 
 RETAIL PROPANE DISTRIBUTION _____ 
 WHOLESALE PROPANE PLANT _____ 
 LPG UNDERGROUND STORAGE CAVERNS _____ 





BISTCHO LAKE AREA
SEE DETAIL MAP
NO 3

LOON LAKE AREA
SEE DETAIL MAP
NO 2

N.W. SWAN HILLS AREA
SEE DETAIL MAP
NO 4

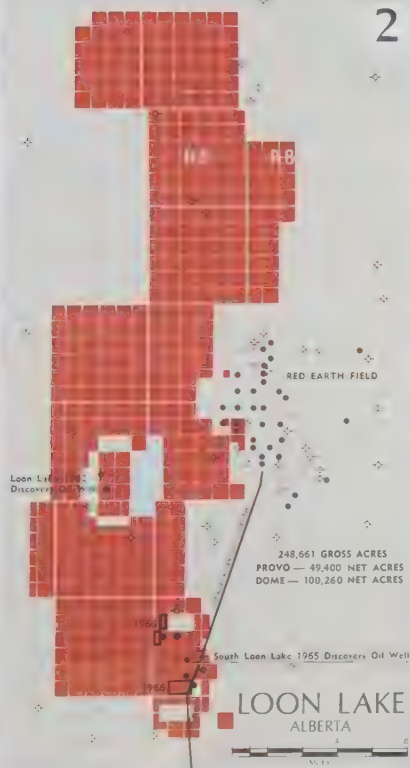
WILLESDEN GREEN AREA
SEE DETAIL MAP
NO 5

PROVOST BROWNFIELD AREA
SEE DETAIL MAP NO 1

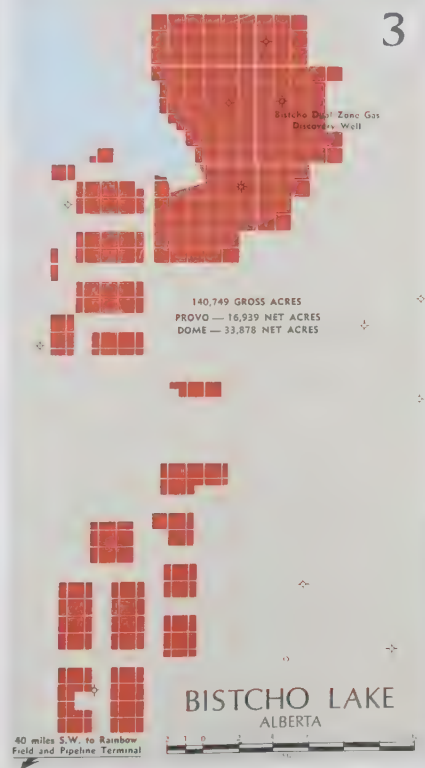
FRED & GEORGE CREEK AREA
SEE DETAIL MAP
NO 6

S.E. SASKATCHEWAN
SEE DETAIL MAP
PAGE 6

2



3



PROVO GAS PRODUCERS LIMITED

CONSOLIDATED STATEMENT OF INCOME

For Six Months Ended June 30, 1965 and 1964

	<u>1965</u>	<u>1964</u>
GROSS INCOME:		
Gas sales		
less royalties	\$1,104,758	\$1,025,715
Crude oil sales		
less royalties	634,339	582,056
Propane and other		
product sales less cost		
of sales	1,601,455	1,590,037
Other income	107,398	74,292
	<u>3,447,950</u>	<u>3,272,100</u>
DEDUCT:		
Operating, general and		
administrative expenses	1,284,983	1,149,086
Interest	583,814	491,613
	<u>1,868,797</u>	<u>1,640,699</u>
CASH FLOW	<u>1,579,153</u>	<u>1,631,401</u>
OTHER EXPENSES:		
Acreage rentals on		
undeveloped properties	107,922	86,110
Exploration	72,694	69,260
Dry holes	158,000	53,811
Lease abandonments	17,123	2,980
Depreciation and		
depletion	846,719	848,343
Amortization of		
financing expenses	28,000	35,017
	<u>1,230,458</u>	<u>1,095,521</u>
NET INCOME	<u>\$ 348,695</u>	<u>\$ 535,880</u>
Income Per Share (8,465,616)		
For Six Months Ended June 30:		
Gross Income	40.7¢	38.7¢
Cash flow	18.7¢	19.3¢
Net Income	4.1¢	6.3¢

This statement is unaudited.

AR36

Mr. Dolores

PROVO GAS PRODUCERS LIMITED

Interim Report June 30, 1965



To the Shareholders:

The results of your Company's consolidated operations during the six months ended June 30, 1965, are presented in this report.

Gross income (after all royalties and cost of sales) to June 30, 1965, increased to \$3,447,950 from \$3,272,100 last year.

Cash flow (gross income less operating, administrative and interest expenses) totalled \$1,579,153 or 18.7¢ per share this year, compared with \$1,631,401 or 19.3¢ per share in 1964.

Net income (after all charges) for this period was \$348,695 or 4.1¢ per share in 1965 and \$535,880 or 6.3¢ per share in 1964.

The minor reduction in cash flow reflects the unusually severe winter conditions which curtailed production at a number of wells and caused increased operating costs. The lower net income is a result of increased exploratory drilling during the first half of the year. It is anticipated that cash flow and net income will increase substantially during the balance of 1965.

	Six Months	
	1965	1964
Oil prod. (net bbls.)	261,508	238,866
Daily oil prod. (net bbls.)	1,445	1,309
Nat. gas prod. (MMcf)	9,569	9,528
Daily gas prod. (MMcf)	52.8	52.3
Liquefied petroleum gas prod. (Imp. gals.)	24,640,970	23,801,189
Daily liq. pet. gas prod. (Imp. gals.)	136,138	130,776
Wells drilled:		
Gross	31.0	18.0
Net: Oil	3.4	2.1
Gas	.1	—
Dry	2.5	1.5
Net wells capable of production:		
Oil	73.2	61.6
Gas	60.7	57.7
Lease and permit acreage:		
Gross	5,101,557	4,984,996
Net	1,225,563	1,188,975

Drilling

Your Company's first half drilling program (excluding 5 gross royalty wells) resulted in 15 oil wells, one gas well and 10 dry holes. Three of the dry holes were drilled at no cost to Provo. A summary of the drilling results follows:

ALBERTA

- 6 oil wells in Swan Hills.
- 5 oil wells in Willesden Green.
- 1 oil well in Pembina.
- 1 gas well in Lone Pine Creek.

SASKATCHEWAN

- 1 oil well in Pinto.

MONTANA

- 2 oil wells in Fred and George Creek.

Cochin Pipe Lines Ltd.

In early June, this wholly-owned subsidiary was granted a permit to construct a liquefied petroleum gas line from Grenfell, Saskatchewan, to the Company's LPG underground storage at Melville, Saskatchewan.

The 45-mile line was completed on July 1. Initial throughputs to our storage facilities are averaging 100,000 gallons per day under the Company's long-term purchase contract with Pacific Petroleum Ltd.

Steelman Gas Limited

The Minister of Mineral Resources recently approved this wholly-owned subsidiary's plan to extend its pipeline system in southeast Saskatchewan to gather gas now being flared in six oil fields located southeast of the Steelman plant. Construction should be completed by the end of October, 1965.

J. P. GALLAGHER,
President.